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FISCAL IMPACT STATEMENT

LS 6699

BILL NUMBER: HB 1589

NOTE PREPARED: Jan 5, 2007

BILL AMENDED:

SUBJECT: Health Insurance Premium Deduction.

FIRST AUTHOR: Rep. Espich

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides a deduction from Adjusted Gross Income for amounts an individual spends during the taxable year on certain health insurance premiums for coverage of the individual, the individual's spouse, or a dependent. The bill excludes expenditures for a long-term care policy, Medicare, a Medicare supplement policy, a group health insurance policy offered through an employer, or a policy provided by the Indiana Comprehensive Health Insurance Association.

Effective Date: January 1, 2007 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the deduction for eligible health insurance premiums. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Summary:* The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities for individual taxpayers with premium expenses for certain health insurance coverage, including some long-term care insurance coverage. The revenue loss due to this bill could potentially total \$8.5 M in FY 2008 and \$9.0 M in FY 2009. The deduction could potentially grow by 5% to 6% annually thereafter based on recent annual trends in health insurance premiums and the number of persons purchasing private health coverage and long-term care coverage.

Background: The bill establishes a deduction from Indiana AGI for premiums paid by an individual taxpayer for health insurance coverage (as defined under the federal Internal Revenue Code) for the taxpayer, the taxpayer's spouse, and the taxpayer's dependents. The deduction applies to premium expenses paid by an

individual for private health coverage and certain long-term care insurance coverage, regardless of whether it is obtained on an individual or group basis. The deduction does not apply to premiums paid by an individual for: Group health coverage provided by an employer; Medicare coverage; Medigap or Medicare Supplement insurance; long-term care insurance purchased through the Indiana Long-Term Care Insurance (Partnership) Program; or health insurance obtained through the Indiana Comprehensive Health Insurance Association. (Note: Under current statute, long-term care insurance purchased through the Indiana Long-Term Care Insurance Program is deductible from AGI.) The revenue loss due to the bill is outlined in the table below.

Type of Premium	Revenue Loss from Premium Deduction	
	FY 2008	FY 2009
Private Non-Group Health Coverage	\$4.9 M	\$5.0 M
Long-Term Care Coverage	3.6 M	4.0 M
Total	\$8.5 M	\$9.0 M

Since the deduction is effective beginning in tax year 2007, the fiscal impact would begin in FY 2008. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Deductible expense and premium totals are estimated based on *Census 2000* population counts for Indiana and statistical results from various health expense and insurance surveys. Information used for the different estimates is outlined below.

Private Non-Group Health Coverage: The deductible premium total for private non-group coverage is estimated based on survey research suggesting that roughly 5% of the population under the age of 65 is covered by such insurance policies, with current annual premiums averaging about \$2,700 for single coverage and \$5,300 for family coverage. In addition, this is adjusted to account for individuals who purchase private non-group coverage but already utilize the deduction from federal gross income for self-employed health insurance premiums. In 2004, almost 73,000 federal filers residing in Indiana claimed \$349.0 M in health premiums under this deduction. These premiums are excluded from the estimate.

Long-Term Care Coverage: The deductible premium total for long-term care coverage is estimated based on survey research estimating that Indiana market penetration rates for long-term care insurance ranges from 6% to 9%, with a reported average premium of about \$1,500 per year. The estimate also excludes Indiana Partnership policies which are covered by a separate tax deduction under current statute. The estimate assumes an average deduction of \$900 since the federally deductible premium is limited based on the age of the taxpayer. The estimate also excludes Indiana Partnership policies which are covered by a separate tax deduction under current statute.

Explanation of Local Expenditures:

Explanation of Local Revenues: The proposed deduction could potentially decrease taxable income. As a result, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) could potentially experience a significant decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: OFMA Income Tax databases, 1998-2004; *Census 2000, Age Distribution of Population, Indiana*, Summary File 1, <http://www.census.gov/>; Kaiser Family Foundation, *The Economic Downturn and Changes in Health Insurance Coverage 2000-2003*, September 2004, <http://www.kff.org/>; Kaiser Family Foundation, *Update on Individual Health Insurance*, August 2004; Kaiser Family Foundation, *Private Long-Term Care Insurance: A Viable Option for Low and Middle-Income Seniors?* 2006; Bureau of Labor Statistics, *Employment, Hours & Earnings (NAICs Based Data) - Indiana: September 2005*; Health Insurance Institute of America (HIAA), *Long-Term Care Insurance in 1997-1998*; HIAA, *Long-Term Care Insurance in 1998-1999*; HIAA, *Long-Term Care Insurance in 2002*; HIAA, *Tax Deductibility of Long-Term Care Insurance Premiums*, March 2000; Milbank Memorial Fund, *Long-Term Care for the Elderly with Disabilities*, August 2000; Indiana Long-Term Care Insurance Program statistical summaries.

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